

ANNUAL BUDGET OF
KAI !GARIB MUNICIPALITY

2012/13 TO 2014/15
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

INDEX

1. Mayor's Budget Report	..	..	..	3
2. Executive Summary	..	..	..	6
3. Operating Revenue Framework	..	..	..	8
3.1 Operating Transfers and Grants	..	..	..	10
3.2 Tariffs	..	..	..	10
4. Operating Expenditure Framework	..	..	..	13
5. Capital Expenditure	..	..	..	14
6. Overview of the Annual Budget Process		..	..	15
7. Overview of Budget Related Policies		..	..	16

1. Mayor's Report

Kai !Garib Munisipaliteit se ontwikkeling beplanning en begrotings proses is in die verlede krities hersien deur middel van ernstige selfondersoek. Swakhede vanuit die vorige era word tans geïdentifiseer en nuwe planne en implementering strategieë word ontwikkel om die situasie van minderbevoorregte gemeenskappe te verbeter as deel van die hervormingsproses. Hiermee is vordering gemaak in die sin dat die begroting die menings van gemeenskappe uitdruk wat in beide die eerste en tweede rondte van die openbare deelname proses ingewin is. Die proses het plaasgevind in laat November 2011 en April 2012.

Ek, die Speaker en die res van die raadslede glo dat die suksesvolle bereiking van plaaslike regering die lewensomstandighede van die gemeenskappe van Kai !Garib kan verbeter, wie die regering se aanslag op dienslewering lief het en ondersteun. Ons let dat die jaarlikse begroting van 2012/2013 effek sal gee aan goeie finansiële bestuur sisteme en prosedures sowel as goeie verhoudings tussen regerings liggame en departemente om die geïntegreerde benadering te bereik wat deur die regering aanbeveel word. Voortaan bemaatig die wetlike raamwerk die burgemeester om politieke leierskap te gee deurdat hy verantwoordelik is vir beleid resultate en die munisipale bestuurder en ander senior bestuurders verantwoordelik hou vir die implementering van doelwitte. Raadslede word bemaatig om 'n belangrike toesighoudende rol te speel in beleid vorming.

Ongelukkig is hierdie nuwe verantwoordelikhede belyd met wetlike vereistes en veranderinge in rekeningkunde praktyke wat nuwe uitdagings vir die munisipaliteit en sy personeel inhou, vandaar die GAMAP/GRAP regulasies. Volgens die MFMA moet die Raad die goedkeuring van die begroting teen 31 Mei oorweeg en dit finaal goedkeur teen 30 Junie. Die vroegtydige indiening van die begroting vir oorweging verseker egter dat dienslewering onmiddellik kan begin. Ons is gereed vir die hersiening van die finansiële beleide en die indiening van die GOP en SDBIP teen die einde van Junie 2012. Dit moet in gedagte gehou word dat indien daar versuim word om die begroting goed te keur voor die aanvang van die begrotingsjaar dit ernstige gevolge kan hê.

Die nuwe rol vir plaaslike regering sluit in die voorsiening van basiese dienste, die skepping van werksgeleenthede, die bevordering van demokrasie, aanspreeklikheid en die uitwissing van armoede. Dit is duidelik om die doelwitte van 'n ontwikkelings gerigte plaaslike toestand te bereik, soos uiteengesit in Artikel 152

van die Wet op Munisipale Stelsels, 'n groter vraag na doeltreffende besluitneming nodig was voordat die begroting goedgekeur word. Omdat die munisipaliteit as 'n medium kapasiteit munisipaliteit geklassifiseer is word ons gedwing om gebruik te maak van al die uitbreidings en vrystellings wat verleen word aan lae kapasiteit munisipaliteite. Dit is egter die munisipaliteit se missie om te voldoen aan al hierdie vereistes in die lang termyn.

Vir die 2012-13 finansiële jaar beloop die begroting vir bedryfsbesteding R144.2 miljoen. Vergeleke met die huidige aangepaste begroting van 2011-12 verteenwoordig dit 'n verhoging van 14.5%.

Om 'n gebalanseerde begroting daar te stel was dit onvermydelik om tariewe vanaf 1 Julie 2012 te verhoog. Derhalwe is alle tariewe verhoog met 10% uitsluitend die elektriese tariewe, water, sanitasie en riool. Hierdie verhogings is as volg:

Elektrisiteit:	11% gediffrensieerd
Water:	Glyskaal vanaf 10% tot 18%
Sanitasie en riool:	14%

Die kapitale begroting vir 2012-13 beloop R28,6 miljoen wat gefinansier word as volg:

- | | |
|-------------------------|---------------|
| • MIG toekennings | R20.9 miljoen |
| • Bydrae uit eie fondse | R4.8 miljoen |
| • Huurkoop | R2.8 miljoen |

Die kapitale begroting vir die volgende 3 jare is gebaseer op die volgende:

- Geprioritiseerde infrastruktuur soos vervat in die GOP
- Prioriteite is gegee aan kapitale projekte wat basiese dienslewering sal verbeter, die inkomste basis sal vergroot of nakoming van wetlike verpligtinge

In die verband het die befondsing uit eie fondse gegroei vanaf die huidige aansuiweringsbegroting van 2011-12 van R4.7 miljoen tot R4.8 miljoen wat 'n verhoging van 3% meebring.

Ter afsluiting met bogenoemde in gedagte is dit van kardinale belang dat ons almal moet saamwerk gegewe die huidige uitdagings. Die voertuig wat gebruik moet word om die uitdagings aan te spreek is die GOP en begroting vir 2012-15.

My dank gaan ook uit aan die Raadslede en amptenare wat betrokke was by die begrotingsvergaderings waar daar interaksie was met die gemeenskap aangaande die konsep begroting van 2012-15. Verder moet die gemeenskap bedank word vir hul aktiewe deelname en waardevolle insette.

J.J.J. OLYN
BURGEMEESTER

2. Executive Summary

National Treasury's MFMA Circular No. 58 and 59 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The general level of poverty and the communities ability to pay for services;
- Severe infrastructure challenges
- Relative low levels of MIG funding
- Availability of affordable borrowing
- The need to fill critical vacancies
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget
- Although tariffs must be affordable, we need to strive towards cost reflective trading services
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2012/13 Medium-term Revenue and Expenditure Framework:

Consolidated Overview of the 2012/13 MTREF

	2012/13 Medium Term Revenue & Expenditure Framework			
<i>R thousand</i>	Adjustment Budget 2011/12	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Total Operating Revenue	123 488	150 710	164 548	183 784
Total Operating Expenditure	119 204	145 427	159 284	179 159
Surplus/Deficit for the year	4 284	5 283	5 264	4 625
Total Capital Expenditure	24 968	27 978	28 363	30 668

Total operating revenue has grown by 21.23 per cent or R26.16 million for the 2012/13 financial year when compared to the 2010/11 Adjustments Budget. For the two outer years, operational revenue will increase by 10.35 and 12.68 per cent respectively, equating to a total revenue growth of R62,51million over the MTREF when compared to the 2010/11 financial year.

Total operating expenditure for the 2012/13 financial year has been appropriated at R119,20 million and translates into a budgeted surplus of R3,98 million. When compared to the 2010/11 Adjustments Budget, operational expenditure has grown by 21 per cent in the 2012/13 budget

and by 10.5 and 12.5 per cent for each of the respective outer years of the MTREF. The operating surplus over the MTREF period amounts R20,65million. These surpluses will be used to fund capital expenditure.

The capital budget of R28.6 million for 2012/13 is 41.2% per cent more when compared to the 2010/11 Adjustment Budget. The increase is due to various projects that are being funded by MIG funds coming into operation. R4.85 million of the projects will be funded from internally generated funds and R2.8 million (for the acquisition of vehicles) will be funded from commercial banks(HP). Over the next two years there is a reduction of 13.7% and the a further increase of 28.2%. The internal contribution will be R4.9 million and R5.9 million respectively for the two outer years, with the remaining of the capital required funded from commercial banks.

3. Operating Revenue Framework

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- The annual collection rate for the 2012/13 financial year is set at 85% for property rates and key service charges.;
- Progress towards achieving full cost recovery for trading services;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Council.

The following table is a summary of the 2012/13 MTREF (classified by main revenue source):

Summary of revenue classified by main revenue source

Description	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<i>R thousand</i>							
Revenue By Source							
Property rates	10 139	10 139	15 147	15 147	12 097	12 739	13 363
Property rates - penalties & collection charges	983	983	1 375	1 375	1 041	1 096	1 150
Service charges - electricity revenue	46 377	46 377	43 113	43 113	54 832	64 435	78 501
Service charges - water revenue	9 079	9 079	8 325	8 325	10 175	10 714	11 239
Service charges - sanitation revenue	5 363	5 363	4 669	4 669	5 883	6 195	6 498
Service charges - refuse revenue	3 664	3 664	3 210	3 210	4 139	4 358	4 572
Service charges - other	8	8	8	8	10	10	10
Rental of facilities and equipment	128	128	240	240	259	273	286
Interest earned - external investments	36	36	–	–	38	40	42
Interest earned - outstanding debtors	6 017	6 017	5 298	5 298	6 464	6 947	7 490
Fines	277	277	251	251	365	384	403
Licences and permits	570	570	583	583	645	679	712
Agency services	1 063	1 063	1 117	1 117	1 126	1 186	1 244
Transfers recognised - operational	35 308	35 308	51 485	39 103	47 729	51 183	55 441
Other revenue	485	485	437	437	534	589	618
Gains on disposal of PPE							
Total Revenue (excluding capital transfers and contributions)	119 498	119 498	135 258	122 875	145 337	160 829	181 570

Percentage growth in revenue by main revenue source

	Current Year							
Description	2011/12	2012/13 Medium Term Revenue & Expenditure Framework						
<i>R thousand</i>	<i>Adjusted Budget</i>		<i>Budget Year 2012/13</i>		<i>Budget Year +1 2013/14</i>		<i>Budget Year +2 2014/15</i>	
Revenue By Source								
Property rates	10 139	8.5%	12 097	8.3%	12 739	7.9%	13 363	7.4%
Property rates - penalties & collection charges	983	0.8%	1 041	0.7%	1 096	0.7%	1 150	0.6%
Service charges - electricity revenue	46 377	38.8%	54 832	37.7%	64 435	40.1%	78 501	43.2%
Service charges - water revenue	9 079	7.6%	10 175	7.0%	10 714	6.7%	11 239	6.2%
Service charges - sanitation revenue	5 363	4.5%	5 883	4.0%	6 195	3.9%	6 498	3.6%
Service charges - refuse revenue	3 664	3.1%	4 139	2.8%	4 358	2.7%	4 572	2.5%
Service charges - other	8	0.0%	10	0.0%	10	0.0%	10	0.0%
Rental of facilities and equipment	128	0.1%	259	0.2%	273	0.2%	286	0.2%
Interest earned - external investments	36	0.0%	38	0.0%	40	0.0%	42	0.0%
Interest earned - outstanding debtors	6 017	5.0%	6 464	4.4%	6 947	4.3%	7 490	4.1%
Fines	277	0.2%	365	0.3%	384	0.2%	403	0.2%
Licences and permits	570	0.5%	645	0.4%	679	0.4%	712	0.4%
Agency services	1 063	0.9%	1 126	0.8%	1 186	0.7%	1 244	0.7%
Transfers recognised - operational	35 308	29.5%	47 729	32.8%	51 183	31.8%	55 441	30.5%
Other revenue	485	0.4%	534	0.4%	589	0.4%	618	0.3%
Total Revenue (excluding capital transfers and	119 498		145 337		160 829		181 570	
Total Revenue from rates and service charges	74 630	62.5%	87 136	60.0%	98 451	61.2%	114 183	62.9%

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms about 61% on average over the MTREF period. The contribution from the equitable share however is also significant at around 30%.

The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

The third largest is revenue from rates at around 8%.

Operating grants and transfers totals R73.031 million in the 2012/13 financial year and increases to R82.93 by 2014/15, representing a growth of 4.95%, and 7.4% respectively.

The growth in the electricity revenue of about 18% (from the adjustment budget) bearing in mind that the maximum increase will be 11% is based on an actual figure of R47,1m as at the end of May 2012, translating to an actual of around R51m as at the end of June 2012.

The increase in the revenue for property rates equates to about 20% whereas the increase is set at only 10%. A number of properties were transferred from the Siyanda district municipality as a result of demarcation process and the revenue were not included in the adjustment budget.

3.1 Operating Transfers and Grant Receipts

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

<i>R thousands</i>	2012/13	2013/14	2014/15
Direct Transfer National Departments	46 950	50 407	54 622
Equitable Share	20 977	22 129	23 408
Municipal Infrastructure Grant	1 200	900	950
Municipal Systems Improvement Grant	1 500	1 750	1 750
EPWP integrated Grant	1 000		
Transfers from Provincial Departments			
Department Sports Arts and Culture			
Library Development	625	684	744
Department of Health	779	776	82 293
TOTAL	73 031	76 646	82 293

3.2 Tariffs

Property Rates

The following stipulations in the Property Rates Policy are highlighted:

- The first R20 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA)
- 100 % rebate will be granted to registered indigents in terms of the Indigent Policy, child headed households and disabled persons
-

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2012/13 financial year based on a 10% increase from 1 July 2012 is contained below:

Comparison of proposed rates to levied for the 2012/13 financial year

Category	Current Tariff (1 July 2011)	Proposed tariff (from 1 July 2012)
	c/R	c/R
Residential properties	0.00726	0.007986
State owned properties	0.01452	0.015972
Agricultural	0.001815	0.001997

Water Tariff Increases

There is currently a huge under-recovery as far as the provision of water services are concerned. Hence higher than inflation rates are proposed.

A summary of the proposed tariffs are as follows:

Proposed Water Tariffs

CATEGORY	CURRENT TARIFFS 2011/12	PROPOSED TARIFFS 2012/13
	Rand per kℓ	Rand per kℓ
(i) 0 to 10 kℓ per month	3.30	3.63
(ii) 11 to 20 kℓ per month	2.64	2.96
(iii) 21 to 30 kℓ per month	3.21	3.66
(iv) 31 to 50 kℓ per month	3.27	3.79
(v) over 50 kℓ per month	3.82	4.51

The following table shows the increases in basic charges which is set at 14%:

CATEGORY	CURRENT TARIFFS 2011/12	PROPOSED TARIFFS 2012/13
	Rand	Rand
(i) Domestic(20-25mm connection)	33.90	38.65
(ii) Commercial(50mm connection)	180.62	205.91
(iii) Commercial(75mm connection)	1147.99	1308.71
(iv) Commercial(100mm connection)	2994.26	3413.45
(v) Untreated	148.50	169.29
(vi) Availability(domestic)	33.90	38.65
(vii) Availability(commercial)	33.90	38.65

The Council provides indigents with an amount of 10kl per month.

Electricity Tariffs

NERSA has announced the revised bulk electricity pricing structure of 15.5% increase and recommends a 11.03% increase to the consumers.

To relief the impact on the poor the Council agreed to reduce the price to indigents by 14%. As the indigents rarely use more that the allocated 50 kw, the impact on the revenue will be minimal.

The Council further proposes incentives to convert to prepaid electricity by not increasing the tariffs for domestic prepaid consumers. The tariffs to the other consumers will be increased by 11%. The basic tariffs will be increased by 11% as well.

At this stage there are no block tariffs implemented as yet, but will be done in the next financial year.

Sanitation Tariff

Once again there is a challenge with respect to being cost reflective, hence the Council proposed a tariff increase of 14%. All indigents are excluded from paying for sanitation.

Waste Removal Tariff

Similarly the tariffs for waste removal has been increased by 14% with the indigents being excluded. This is based on refuse being removed once per week.

4. Operating Expenditure Framework

The following table is a high level summary of the 2012/13 budget and MTREF (classified per main type of operating expenditure):

Summary of operating expenditure by standard classification item

Vote Description	2012/13 Medium Term Revenue & Expenditure Framework			
	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15	
<i>R thousand</i>				
Expenditure By Type				
Employee related costs	49 194	51 831	54 590	
Remuneration of councillors	4 455	4 691	4 921	
Debt impairment	10 067	10 820	11 666	
Depreciation & asset impairment	5 007	5 272	5 531	
Finance charges	4 423	4 657	4 885	
Bulk purchases	29 529	37 176	47 211	
Other materials	8 648	10 781	13 110	
Contracted services	5 430	5 469	5 725	
Transfers and grants	5 492	5 782	6 064	
Other expenditure	23 709	24 371	27 962	
Total Expenditure	145 953	160 851	181 664	

Employee Costs

The budgeted allocation for employee related costs for the 2012/13 financial year totals R49.194 million, which equates 33.7% per cent of the total operating expenditure. Increases were based on the National Treasury guideline of 5%(plus an additional 1.5% for pay progression). A further 5% is included for the two outer years of the MTREF respectively.

The cost associated with the remuneration of councillors was set at 5% increase as well for the MTREF period.

Bulk Purchases

The next biggest expense for the Council is the payment for bulk purchases which was budgeted for R29.5 million or 20.2% of the operating budget.

Debt Impairment

The provision of debt impairment was determined based on an annual collection rate of 85 per cent. For the 2012/13 financial year this amount equates to R10 million and escalates to R11.6 million 2014/15.

Depreciation

Depreciation has been appropriated at R13.6 million(excluding employee costs) which equates to about 6.5% of the total operating expenditure.

Other Expenditure

Other expenditure were budgeted at R23.7 million. The majority of the expenses can be attributed to

- (i) Fuel at R3.3 million
- (ii) Audit fees at R1.8m
- (iii) Subsistence and travel at R1.6m and
- (iv) Chemicals at R1.3 million.

5. Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Vote Description	2012/13 Medium Term Revenue & Expenditure Framework			
	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15	
<i>R thousand</i>				
Executive and council	1 050	50	50	
Budget and treasury office	1 250	600	600	
Corporate services	700	600	600	
Community and social services	5 123			
Public safety	400			
Planning and development	2 100	1 740	1 770	
Road transport	450	1 800	2 550	
Electricity	600	1 050	1 250	
Water	10 683	9 075	2 578	
Waste water management	4 921	13 048	20 870	
Waste management	700	400	400	
Total Capital Expenditure	27 978	28 363	30 668	

Expenditure on the CAPEX budget is largely driven by projects that has been approved in terms of MIG funding. For 2012/13 an amount of R15,254 million has been appropriated for the development of infrastructure which represents 55% of the total CAPEX budget.

The highest priority as per the IDP is the provision of housing. Since the municipality does not provide housing, but merely act as agent, the onus is on the municipality to provide suitable land

for the provision of housing. An amount of R1.7 million has been appropriated for the development of land for the provision of housing.

The provision of water services has been identified as the second highest priority in the IDP. An amount of R14,8 million has been appropriated for the provision of bulk water services.

A shortage of burial sites has been identified and hence an amount of R5.1 million have been appropriated to relief this burden.

Due to the ageing motor vehicle fleet an amount of R3.7 million have been appropriated to renew the fleet. R2.8 million thereof will be financed and the rest from internal funds.

6. Overview of the annual budget process

Budget Process Overview

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2010. Key dates applicable to the process were:

- **August 2011** – Budget process plan tabled before Council
- **November 2011 to January 2012** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **25 January 2011** - Council considers the 2011/12 Mid-year Review and Adjustments Budget;
- **February 2011** - The draft 2012/13 MTREF is compiled;
- **28 March 2012** - Tabling in Council of the draft 2012/13 MTREF for public consultation;
- **April 2011** – Public consultation;
- **6 May 2011** - Closing date for written comments;
- **6 to 28 May 2011** – finalisation of the 2012/13 IDP and 2012/13 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **28 June 2012** - Tabling of the 2012/13 MTREF before Council for consideration and approval.

Community Consultation

The draft 2012/13 MTREF as tabled before Council on 28th March 2011 for community consultation was at all municipal offices. The community consultation process started from 16th to 23rd April 2012. The applicable dates and venues were published in all the local newspapers and on average attendance of 100 was recorded per meeting.

The budget process as well the content of the budget were explained to the community. The community was then allowed to provide feedback on the contents of the budget. Written as well as verbal submissions were received.

The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Shortage of housing
- Poor quality and limited availability of water
- Sanitation needs to be upgraded with specific reference to the eradication of pit toilets
- Shortage of job opportunities
- Poor condition of playing fields
- Availability of land for the development of erven
- The indigent policy need to be extended to all the communities in the municipality
- Shortage of burial places

7. Overview of budget related-policies

The following policies were tabled before Council for review:

Credit Control and Debt Collection
Indigent Policy
Donations Policy
Rental of Halls Policy
Supply Chain Management Policy
Budget Policy
Tariff Policy
Rates Policy
Investment Policy
Asset management Policy
Subsistence and Travel Policy